UNITED NATIONS

A

General Assembly

Distr.
GENERAL

A/46/5
29 July 1991

ORIGINAL: ENGLISH

Forty-sixth session
Item 106 of the provisional agenda*

# FINANCIAL REPORTS AND AUDITED FINANCIAL STATEMENTS, AND REPORTS OF THE BOARD OF AUDITORS

## Interim report of the Board of Auditors on the International Trade Centre for the first year of the biennium 1990-1991**

CONTENTS


| | | Paragraphs | Page |
|---|---|---|---|
| LETTER OF TRANSMITTAL | | | 3 |
| INTERIM REPORT OF THE BOARD OF AUDITORS | | 1 - 16 | 4 |
| I. | INTRODUCTION | 1 - 3 | 4 |
| II. | SUMMARY | 4 - 5 | 4 |
| III. | COMPLIANCE WITH UNITED NATIONS ADMINISTRATIVE INSTRUCTIONS | 6 - 13 | 4 |


* A/46/150.

** The present document contains the interim report of the Board of Auditors on the International Trade Centre for the first year of the biennium 1990-1991. The financial report and audited financial statements for the biennium ended 31 December 1991 and the report of the Board of Auditors regarding the International Trade Centre will be issued as Official Records of the General Assembly, Forty-seventh Session, Supplement No. 5 (A/47/5), vol. II.



READEX FICHE

CONTENTS (continued)


| | | Paragraphs | Page |
|---|---|---|---|
| | A. Operating reserve ..... | 10 | 5 |
| | B. Allotment procedure ..... | 11 | 6 |
| | C. Project personnel ..... | 12 - 13 | 6 |
| IV. | CONCLUSION ..... | 14 - 15 | 6 |
| V. | ACKNOWLEDGEMENT ..... | 16 | 7 |

LETTER OF TRANSMITTAL

2 July 1991

Sir,

I have the honour to transmit to you the interim report of the Board of Auditors on the International Trade Centre for the first year of the biennium 1990-1991, in accordance with paragraph 8 of General Assembly resolution 45/235 of 21 December 1990.

Accept, Sir, the assurances of my highest consideration.

(Signed) Heinz Günter ZAVELBERG
President of the Federal Court of
Audit of Germany and Chairman,
United Nations Board of Auditors

The President of the General Assembly
of the United Nations
New York, N.Y.

# INTERIM REPORT OF THE BOARD OF AUDITORS

## I. INTRODUCTION

1. In its resolution 45/235 of 21 December 1990, the General Assembly invited the Board of Auditors to issue a special report for United Nations organizations audited on a biennial basis for the first year of each biennium through the Advisory Committee on Administrative and Budgetary Questions, if in the opinion of the Board there were matters that needed to be brought to the attention of the governing bodies and/or the General Assembly. The Board of Auditors herewith issues a special audit report on the International Trade Centre, UNCTAD/GATT (ITC).

2. The Board, in previous reports 1/ repeatedly pointed out that some of the administrative practices at ITC deviated from United Nations administrative instructions. It was recommended that ITC, together with the United Nations Secretariat, review existing regulations, rules and administrative instructions to determine when ITC might deviate from complying with those directives, and that they keep a record of such cases. It was recommended that the review should be completed at the end of the biennium 1990-1991. Although some progress has been made in certain areas, it is unlikely that the review could be completed by the target date.

3. The primary objective of the present report is to provide up-to-date information on administrative practices of ITC in order to expedite prompt action in this respect and to ensure that the review is completed on time.

## II. SUMMARY

4. Audits conducted during the first year of the biennium 1990-1991 revealed that the problem of the applicability to ITC of United Nations administrative instructions in its entirety had remained unresolved. That situation constituted a weakness in the Centre's administrative practices and hence in its internal control system.

5. There is therefore an urgent need to decide whether or not ITC has to comply with United Nations administrative instructions and, if not, what directives it should follow instead.

## III. COMPLIANCE WITH UNITED NATIONS ADMINISTRATIVE INSTRUCTIONS

6. ITC is a joint subsidiary organ of both the General Agreement on Tariffs and Trade (GATT) and the United Nations, the latter acting through the United Nations Conference on Trade and Development (UNCTAD). In 1974, the General Assembly affirmed the Centre's "authority to continue to exercise the

---

1/ See Official Records of the General Assembly, Forty-third Session, Supplement No. 5 (A/43/5), vol. II, sect. II, and ibid., Forty-fifth Session, Supplement No. 5 (A/45/5), vol. II, sect. II.

responsibilities it has assumed relative to the acceptance and use of trust funds, together with authority to approve payments from trust funds". 2/ In a note by the Secretary-General, it was clearly stated that that authority was to be carried out "under the terms of the relevant United Nations Financial Regulations and Rules" (A/C.5/1604 and ST/AI/315).

7. While there is such a statement, it has never been clarified, however, whether and to what extent ITC has to comply with United Nations administrative instructions. Referring to the fact that its authority to administer trust funds pre-dates the issuance of United Nations administrative instructions concerning technical cooperation trust funds (ST/AI/285), ITC differs in certain respects from existing United Nations administrative instructions. In this context, for example, ITC explains that it had in the past negotiated agreements with donors that governed the current practice of ITC of following a pragmatic approach to the provisions of ST/AI/285, meeting the donor Governments' individual requirements, while at the same time ensuring the effective implementation of the technical cooperation programme without financial risk and without infringing the United Nations Financial Regulations and Rules.

8. The Board is of the opinion that fundamental administrative instructions, such as those concerning technical cooperation trust funds (ST/AI/285), programme support accounts (ST/AI/286) and project personnel (ST/AI/297) form an integral part of the internal control system as required by financial regulation 10.1. If these administrative instructions are not fully applied, there is a gap in the internal control system. Therefore, ITC should fully conform to United Nations administrative issuances or establish its own internal directives, which, however, would require the authority to do so.

9. The following examples show deviations from United Nations administrative instructions.

### A. Operating reserve

10. ITC does not maintain an operating cash reserve at the level of 15 per cent of the annual estimated expenditures as provided by the administrative instruction on technical cooperation trust funds. At present, this would require a reserve of about $3 million. Instead, the Centre maintains a reserve at a predetermined level of $700,000. This reserve has been specifically established for the variance between the actual and standard costs of experts' services (Summary of Significant Accounting Policies, paras. m (x) and m (xii)).

---

2/ Official Records of the General Assembly, Twenty-ninth Session, Supplement No. 8 (A/9608/Add.1-23), document A/9608/Add.9, para. 4 (b).

## B. Allotment procedure

11. Whereas section IV, B, of document ST/AI/285 provides that allotments must not exceed the cash on hand, ITC continues to issue allotments for the whole year on the basis of pledged contributions. Consequently, at certain times during the year, the allotments exceed the available cash received from some donors. In addition, occasionally total expenditures (i.e. disbursements plus unliquidated obligations) are not covered by cash received.

## C. Project personnel

12. According to United Nations administrative instructions (ST/AI/297, ST/AI/285, section I, B, and ST/AI/286), posts at L-6, D-1 level and above to be located at any established United Nations office must receive the prior approval of the Office for Programme Planning, Budget and Finance at Headquarters and, if required, the approval of the Advisory Committee on Administrative and Budgetary Questions. At ITC, there is no evidence of approval by the Office on the hiring of some L-6 staff.

13. United Nations directives state that project personnel "may not be used in established offices to carry out substantive work programmes" (ST/SGB/177, para. 12). While the Board admits that the delineation between substantive programme and project activities in the field of technical cooperation is somewhat blurred, it has noticed that some advisers with project contracts carry out substantive work. Using technical cooperation staff to carry out substantive work normally performed by regular staff leads to overstating the input for technical cooperation activities and understating expenditures borne by the regular budget.

# IV. CONCLUSION

14. Although the question of whether or not ITC has to comply fully with United Nations administrative instructions has been raised in previous reports of the Board, neither ITC nor the United Nations Secretariat have made appropriate efforts to resolve this issue. This indecision affects the adequacy of the Centre's internal control system, which requires clear and strict provisions. Weaknesses in the internal control of an organization cannot be regarded merely as a matter of form, but are of substantial importance.

15. It is recognized that possibly not all the provisions of the said instructions fit the Centre's conditions, considering its legal status, and the kind of work it carries out. Maybe ITC needs some flexibility in its administrative procedures to implement its export promotion programmes effectively. However, the limits of such flexibility must be clearly defined. Hence, there is an urgent need to identify which administrative instructions are pertinent to ITC operations.

## V. ACKNOWLEDGEMENT

16. The Board of Auditors wishes to express its appreciation for the cooperation and assistance extended by the Executive Director of the International Trade Centre UNCTAD/GATT, his senior officers and members of their staff.

(Signed) Heinz Günter ZAVELBERG
President of the Federal Court
of Audit of Germany

(Signed) Eufemio C. DOMINGO
Chairman, Commission on Audit
of the Philippines

(Signed) Osei Tutu PREMPEH
Auditor-General of Ghana

---